

Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of

Presubscribed Interexchange Carrier Charges

CC Docket No. 02-53

COMMENTS OF VERIZON

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I. INTRODUCTION AND SUMMARY

The Commission should retain the current \$5.00 safe harbor for the presubscribed interexchange carrier (“PIC”) change charge. The charge remains a reasonable method of cost recovery and has neither impeded consumer choice nor inhibited competitive entry. It also recovers additional costs incurred by the local exchange carriers to deal with slamming complaints and the costs of requests for PIC freezes to control slamming. The Commission should not disaggregate the PIC charge into separate rates for manual vs. mechanized PIC orders. A bifurcated rate would be confusing to customers and would not create incentives to submit orders on a mechanized basis, because interexchange carriers normally pay PIC change charges on their customers’ behalf. A requirement for a bifurcated rate structure also would add costs to administer, develop, and communicate the new structure to customers. If the Commission requires local exchange carriers to file new PIC charges based on current costs, it must include all

¹ The Verizon Telephone Companies (“Verizon”) are the affiliated local telephone companies of Verizon Communications Inc. The companies are listed in Attachment A.

relevant costs and allow price cap carriers to recover any shortfall from the revenues currently produced by the \$5.00 charge.

II. THE COMMISSION SHOULD RETAIN THE \$5.00 SAFE HARBOR.

The \$5.00 safe harbor for PIC change charges is reasonable given current market conditions and the purpose of the charge. While the \$5.00 charge enables carriers to recover costs associated with PIC changes, the safe harbor never was intended to be based solely on cost. Rather, as the Commission noted in the 1987 Access Tariff Order, the change was intended to “reflect some cost recovery and [] not pose a barrier to competitive entry or exercise of customer choice.” *Annual 1985 Access Tariff Filings*, 2 FCC Rcd 1416, ¶ 272 (1987) (“1987 Access Tariff Order”) (citing *Investigation of Access and Divestiture Related Tariffs*, 55 RR 2d 1422, at Appendix B, p. 13-15 (1984)). The current charge continues to serve this purpose.

The \$5.00 charge is still cost-related. As shown in Attachment B, Verizon’s current costs to implement a PIC change are \$5.47 in the East and \$4.84 in the West, including the costs of administering PIC freeze requests and slamming complaints. Although most of the PIC change process is mechanized, a significant number of PIC changes involve manual processing, which increases the costs. To implement such changes, service representatives take approximately 4 minutes per customer to conduct the transaction and enter the order into the Ordering System. *See* Attachment B, Exhibit Verizon East PIC Cost, Workpaper 1.1, line 1. This is in addition to the mechanized processing of the order through the company’s operations support systems.

Moreover, the \$5.00 PIC change charge is not a disincentive for consumers to switch carriers. The interexchange carriers routinely absorb the charge on behalf of their end users. In addition, the charge is minimal compared with the other financial

incentives that interexchange carriers offer consumers to change carriers, such as free minutes, up-front signing bonuses, and waiver of other fixed charges. The \$5.00 PIC charge has had no effect on willingness of customers to change carriers. Indeed, the rate of churn among long distance carriers remains about 30% in Verizon's region.

Nor is the PIC change charge an impediment to competitive entry. As the Commission has noted, "[m]ore than 1,000 companies now offer wireline long distance service." *Statistics of the Long Distance Telecommunications Industry*, FCC Report at 1 (rel. May 2003). This represents a substantial increase over the 700 companies offering wireline service in 2001. *Statistics of the Long Distance Telecommunications Industry*, FCC Report at 1 (rel. Jan. 2001). Even more significantly, long distance competition from inter-modal sources, including wireless carriers, cable providers, e-mail, and instant messaging already is intense, and Internet protocol telephony will further stoke the competitive fires. *See Verizon Ex Parte*, WC Docket No. 02-112, at 4-10 (filed Feb. 13, 2004).

III. THE COMMISSION SHOULD NOT REQUIRE SEPARATE CHARGES FOR MANUAL AND MECHANIZED CHANGES.

The Commission should continue to apply the same PIC change charge to both mechanized and manual changes. There is no basis to the suggestion in the Further Notice that a bifurcated rate (or a change in the entity responsible for payment) might produce incentives for consumers to use electronic means to implement PIC changes. *See Presubscribed Interexchange Carrier Changes*, FCC 04-96, ¶ 6 (rel. Apr. 23, 2004) ("Further Notice"). In addition, the carriers would incur additional costs to develop bifurcated charges, administer them, and explain to customers when the different rates would apply.

As an initial matter, a bifurcated PIC change charge or a change in the entity responsible for payment will not affect consumer behavior because it would be difficult to communicate such changes to consumers. Few customers would take the time to read information about PIC change charges, whether it was provided in a bill insert or through other communications. The differences in the four possible scenarios – mechanized and submitted by the end user; mechanized and submitted by the interexchange carrier, manual submitted by the end user, and manual submitted by the carrier – would escape most customers’ understanding. If anything, the confusion could inhibit customers from changing their interexchange carriers because it would raise concerns where none exist today. Such confusion also would increase the cost of PIC changes because service representatives would have to spend more time explaining the different charges to the customers.

More importantly, even if consumers did understand that there was a cost difference between mechanized and manual PIC changes, a difference of a few dollars in the cost of such changes would not affect a customer’s decision of how to order service in any event. This is so because, as noted above, consumers rarely pay the PIC change charge even though they are nominally responsible for doing so; interexchange carriers routinely credit the customer or otherwise absorb the cost of the charge.²

Moreover, even if consumers somehow did directly bear the cost of PIC changes, the volume of manual PIC changes is driven largely by the desire of consumers to speak

² For this reason, changing the entity responsible for paying the PIC charge would not create any greater incentive to reduce costs. Today, the end user is responsible for payment, but the interexchange carrier normally reimburses the end user as a marketing tool. The market has found a solution that satisfies both parties. Changing the entity that is legally responsible for payment will not affect the ultimate outcome.

with sales representatives in order to understand the ever-expanding choices for calling plans and to conduct other transactions with the carriers. Consumers rely on one-on-one conversations with phone companies' representatives to determine which service offerings suit their particular needs. In these circumstances, the difference in cost of a web-based or other mechanized ordering process likely would not be sufficient to motivate a customer to forego the benefits of live interactions.

Nor would bifurcated rates result in greater submission of mechanized orders by interexchange carriers. As a general matter, those carriers, including Verizon's long distance affiliates, already submit their orders on a mechanized basis after they have taken orders from customers through their own service centers.

If the Commission nonetheless decides to mandate bifurcated PIC change charges, it should not use the approach described in paragraph 9 of the Further Notice to disaggregate the rates. The Commission notes that the BellSouth filed a new PIC change charge of \$3.07 based on a weighted average of manual and mechanized costs. The Commission calculates that this is the sum of a \$2.45 charge for a manual order plus a \$0.48 charge for a mechanized order, plus a common cost factor. However, those are the demand-weighted components of the \$3.07 charge, which represents the average costs of processing both manual and mechanized PIC orders. If Bell South were required to disaggregate this rate into separate manual and mechanized charges, it would have to use the *unweighted* costs, which would be significantly higher. For example, Bell South's data show that the cost of a manual PIC order for a residential customer is \$5.08.³ This is confirmed by Verizon's cost study, which shows that the average cost of processing both

³ See BellSouth Transmittal No. 756, Attachment A, worksheet Unweighted Cost – Detail, column B, row 7.

manual and mechanized PIC orders in the East is \$5.47, but that the cost of a manual order alone would be \$6.25.⁴

IV. IF ALL RELEVANT COSTS ARE PROPERLY INCLUDED, THERE WOULD BE NO CHANGE IN THE PIC CHARGE, AND IN ANY EVENT THE PRICE CAP LECS MUST HAVE THE OPPORTUNITY TO RECOVER ANY RESULTING REVENUE SHORTFALL.

A. Cost-Based PIC Change Charges Must Recover All Relevant Costs, Including the Costs of PIC Freezes and Resolving Slamming Complaints.

If the Commission requires local exchange carriers to file new PIC change charges, it should not simply prescribe a new uniform charge based on BellSouth's cost data. Carriers face different costs depending on a number of factors, such as the percentage of changes that are processed manually and differences in labor rates and other direct and overhead costs. For instance, BellSouth's costs are based, in part, on the fact that 54 percent of its PIC orders are processed manually, while Verizon's experience is that 65 percent of its PIC changes in the East are processed manually.⁵ Carriers should be permitted to file revised PIC change charges that recover not only their own direct costs of implementing PIC changes, but also a reasonable allocation of joint, common, and overhead costs, the costs of applying and removing PIC freezes, and the costs of responding to slamming complaints. As is shown in Attachment B, Verizon's costs for processing PIC changes are higher than BellSouth's, averaging \$5.47 in the East and \$4.84 in the West. It would be unreasonable to require Verizon to charge less based on another carrier's costs.

⁴ See Attachment B, Exhibit Verizon East PIC Cost, Workpapers 1.1, 1, 2, line 38. This is a disaggregation of the average charge and does not include the costs to develop and administer a bifurcated rate structure.

⁵ Compare Further Notice, fn. 10 *with* Attachment B, Exhibit Verizon East PIC Cost, Workpaper 1.1, line 1.

Direct costs. Any new cost-based PIC change charge must recover the direct costs of both electronic and manual processing of PIC changes. For manual changes submitted through the Verizon service center, these costs include the time spent by the service representative entering the order into the Ordering System as well as the costs associated with mechanized processes for updating of the PIC database, implementing the PIC change in the switch, updating the line and directory number assignment system, notifying the interexchange carriers, and entering the change into the billing system. For mechanized changes initiated by interexchange carriers, these costs include the edit process (reviewing the request to assure it is free of errors) as well as the same mechanized costs noted above with respect to manual requests.⁶

Joint and common costs and overhead. The PIC change charge must be sufficient to recover a reasonable allocation of joint and common costs and overhead. For example, the labor rates used to calculate direct costs include wages, benefits, and taxes, but do not encompass overhead costs such as planning, accounting, and human resources.

Similarly, the direct costs of the computer systems used to process PIC changes do not include general support facility charges, including land and buildings, general purpose computers, and furniture. A reasonable allocation of these costs, therefore, should be included in calculating the PIC change charge.

PIC freeze costs. PIC freeze costs should be recovered through the PIC change charge, because the PIC freeze option supports the integrity of the entire interexchange carrier presubscription process. In particular, PIC freezes enable consumers to prevent unwanted changes to their preferred carrier. Often, a PIC freeze request results from a

⁶ Verizon attached a detailed description of the PIC change process to its June 14, 2002 Comments in this docket. That process has not changed in the past two years.

customer's experience with having a line "slammed" to an unwanted interexchange carrier. Requiring the customer to pay for the right to avoid being slammed again would add insult to injury. The costs of entering the PIC freeze, removing it when a customer changes interexchange carriers, and performing third party verification are considerable. For example, the cost of third party verification alone is \$2.25 per freeze.⁷ Some customers, such as large businesses, routinely unfreeze their accounts, change the PIC, and then re-freeze their accounts, to protect themselves from the financial impact and inconvenience of being slammed.

Despite the substantial costs of administering the PIC freeze system, the Commission should not discourage consumers from using this protection by adopting a separate PIC freeze charge. As the Commission has noted,

We remain convinced of the value of the preferred carrier freezes as an anti-slamming tool. We do not wish to limit consumer access to this consumer protection device because we believe that promoting consumer confidence is central to the purposes of section 258 of the Act.⁸

Nor can the Commission properly compel the local exchange carriers to absorb the costs associated with PIC freezes that are used to protect customers from unauthorized actions by interexchange carriers. Rather, the Commission should safeguard the PIC freeze option for consumers by permitting recovery of PIC freeze costs in the PIC change charge.

⁷ See Attachment B, Exhibit Verizon East PIC Freeze Cost, Workpaper 1.1, line 6.

⁸ *Implementation of the Subscriber Carrier Selection Changes Provisions of the Telecommunications Act of 1996; Policies and Rules Concerning Unauthorized charges of Consumers Long Distance Carriers*, 14 FCC Rcd 1508, ¶ 136 (1998).

Slamming. The costs of resolving slamming complaints also should be included in the PIC change charge. When a customer is slammed, the local exchange carrier should be allowed to recover the cost of changing a customer's PIC back to its authorized carrier. Such costs should be recovered as part of the general PIC change charge, not as a separate assessment on the slammed consumer, for the same reasons noted above with regard to the PIC freeze – the customer did not cause the slam and should not bear the cost of resolving the complaint.

B. If the Commission Requires the PIC Change Charge to Be Reduced Below \$5.00, Then the Carrier Must Be Permitted to Recover the Resulting Revenue Shortfall Through an Exogenous Increase in Price Cap Rates.

If the Commission requires implementation of a new PIC change charge or prescribes a new safe harbor, and if this would result in a PIC change charge of less than \$5.00, then the carrier must be permitted to recover the difference in revenues through increases to its price cap rates. This is so because the initial price cap rates were based on rates that were developed under a rate-of-return scheme to recover the residual revenue requirement after subtracting revenues generated by the \$5.00 PIC change charge.

The PIC change charge itself is outside of price caps. As the Commission explained in excluding the PIC charge from the price cap regime, this charge is “very different from the broader system of interstate access offerings that have been studied at length to determine LEC productivity.”⁹ (Indeed, in contrast to other offerings, PIC change processing has become increasingly manual in recent years, strongly suggesting that associated costs have gone up rather than sharing in any productivity gains.)

⁹ *LEC Price Cap Order*, 5 FCC Rcd 6786, ¶ 195 (“Presubscription charges that LECs assess when an end user decides to change presubscribed interexchange carriers are excluded.”).

Revenues realized from the PIC change charge were taken into account in determining the initial set of price cap rates. In particular, price caps were initialized based on rates that were established in the last rate-of-return proceeding, the 1990 Annual Access Tariff Proceeding.¹⁰ Under rate of return regulation, rates were set so that total projected revenues equaled total projected costs. More precisely, revenues from prescribed rates, such as the PIC change charge, were subtracted from total costs, and the rates for remaining services were set to cover the remaining costs. As a result, if the initial PIC change charge had been lower than \$5.00, other access rates – such as local switching charges, the carrier common line charge, and subscriber line charges – would have been set higher to recover the difference in PIC charge revenues.¹¹ For this reason, if a carrier's PIC charge is now reduced below \$5.00, it will face a revenue shortfall. The Commission must allow recovery of the lost revenues through exogenous increases to the carrier's price cap rates.

¹⁰ *Id.*, ¶¶ 230-231.

¹¹ For example, when BellSouth reduced its PIC change charge to \$1.49, it did so in the 1990 Annual Access Tariff Proceeding, so that the reduced revenues were recovered in other access rates, upon which the initial price caps for BellSouth were based.

V. CONCLUSION

The Commission should retain the current \$5.00 safe harbor for PIC change charges.

Respectfully submitted,

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THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.